

Message Text

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ACTION EB-11

INFO OCT-01 EUR-25 EA-11 NEA-10 ISO-00 SSO-00 NSCE-00

USIE-00 INRE-00 SPC-03 AID-20 NSC-10 RSC-01 CIEP-02

TRSE-00 SS-20 STR-08 OMB-01 CEA-02 L-03 H-03 PA-04

PRS-01 CIAE-00 COME-00 FRB-02 INR-10 NSAE-00 XMB-07

OPIC-12 LAB-06 SIL-01 IO-14 DRC-01 /189 W

----- 066851

O R 241807Z OCT 73

FM AMEMBASSY BONN

TO SECSTATE WASHDC IMMEDIATE 8263

INFO AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY TOKYO

AMEMBASSY OTTAWA

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

AMEMBASSY OSLO

AMEMBASSY THE HAGUE

AMEMBASSY BRUSSELS

AMEMBASSY ISLAMABAD

AMEMBASSY DACCA

C O N F I D E N T I A L BONN 15400

E.O. 11652: GDS

TAGS: EFIN, PK, BD, GW

SUBJECT: PAKISTAN-BANGLADESH DEBT

REF: STATE 208687

1. SUMMARY. WHILE NONE OF THE ALTERNATIVE DEBT
OPTIONS (REFTEL) IS EXCLUDED FOR THE FRG, THE AID AND
FINANCE MINISTRIES OFF-HAND PREFERENCE IS A LONG-TERM
RESCHEDULING OF THE ENTIRE DEBT ON A SINGLE SET OF
TERMS. THE FRG PLANS TO AWAIT THE IBRD REPORT BEFORE
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DEVELOPING A DEFINITE POSITION, AND OUR SOURCES

BELIEVE THIS TACTIC IS LIKELY TO PRODUCE THE MOST GENEROUS FRG POSTURE. EMBASSY BELIEVES FRG'S EVENTUAL POSITION ON FORGIVENESS OF DEBT MAY BE MORE STRONGLY NEGATIVE THAN PRELIMINARY COMMENTS REPORTED BELOW. END SUMMARY.

2. WE HAVE CONSULTED REGARDING THE OPTIONS IN REFTEL WITH AID MINISTRY ACTING ASSISTANT SECRETARY OPPELT AND WITH THE FINANCE MINISTRY TO CLARIFY BUDGET AND LEGAL CONSTRAINTS. BOTH STRESSED THAT THEIR REACTIONS HAD TO BE CONSIDERED VERY INFORMAL AND TENTATIVE SINCE THE FRG HAS NOT CONSIDERED SPECIFICALLY ANY OF THE QUESTIONS WE RAISED. (ALSO, BEST INFORMED FRG FIGURE, CONSORTIUM DELEGATE KLAMSER, IS OUT OF THE COUNTRY)

3. NONE OF THE THREE ALTERNATIVES IN THE REFTEL IS OUT OF THE QUESTION AS FAR AS THE FRG IS CONCERNED ON LEGAL, BUDGETARY OR IMMUTABLE POLICY GROUNDS. BOTH OUR AID AND FINANCE MINISTRY SOURCES, HOWEVER, EXPRESSED A PREFERENCE FOR ALTERNATIVE THREE ON PRECEDENT AND INSTITUTIONAL GROUNDS. THEY BELIEVE THAT A MORE COMPREHENSIVE RESCHEDULING ON A SINGLE SET OF TERMS WILL AVOID THE MOST DANGEROUS PRECEDENTS FOR OTHER LDC DEBTORS (FORGIVENESS, HIGHLY CONCESSIONAL TERMS AND DIFFERENTIAL TERMS). ALSO, ALTERNATIVES ONE AND TWO WOULD REQUIRE PRIOR APPROVAL FROM THE BUNDESTAG BUDGET COMMITTEE, ALTHOUGH THIS APPROVAL WOULD BE IN DOUBT ONLY IN THE CASE OF ALTERNATIVE TWO. NEITHER OUR FINANCE OR AID MINISTRY SOURCES SKIPPED A HEARTBEAT AT OUR MENTION OF A DEBT WRITE OFF, BUT BOTH STRESSED THAT THIS ALTERNATIVE WOULD PRESENT THE MOST DIFFICULTIES FOR THE FRG. THE FINANCE MINISTRY WAS UNCONCERNED ABOUT PRECEDENT-CREATING EFFECT OF A NON-DEFAULT RESCHEDULING, NOTING THAT A PRECEDENT ALREADY EXISTS (INDIA).

4. THE FRG DOES NOT PLAN TO FIRM UP A POSITION ON A PAKISTAN RESCHEDULING UNTIL THE IBRD HAS PRESENTED ITS REPORT AND PROPOSALS (WHICH EVERYONE HERE SEEMS TO ASSUME WILL HAVE BEEN WORKED OUT WITH THE U.S. IN ADVANCE). AT THAT POINT THE FRG WOULD BE STRONGLY CONFIDENTIAL

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INFLUENCED BY THE NATURE OF THE IBRD PROPOSAL. OUR SOURCES STATED THAT ANY EFFORT TO GET A MORE FORMAL REACTION FROM THE FRG PRIOR TO THAT POINT WOULD PROBABLY PRODUCE A LESS FORTHCOMING FRG POSITION.

5. COMMENT: IN ONE KEY RESPECT, THE ATTITUDE TOWARD DEBT FORGIVENESS, THE EMBASSY BELIEVES THE FRG'S EVENTUAL, CONSIDERED REACTION MAY BE MORE STRONGLY

RESENT THAN THE PRELIMINARY REACTIONS ABOVE. TRADE,
AID AND THE RESULTING DEBT ARE THE HEART OF THE FRG'S
RELATIONSHIP WITH LDCS. THE VOLUME OF DEBT OWED THE
FRG BY LDCS IS SUBSTANTIAL. THE MORE FRG OFFICIALS
PONDER THE PRECEDENT-CREATING EFFECT OF A DEBT WRITE-OFF
THE MORE ENTHUSIASTIC THEY ARE GOING TO BECOME ABOUT
OTHER MEANS OF ACCOMPLISHING A SIMILAR RESULT FOR
PAKISTAN.
HILLENBRAND

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